Joe (00:00)
So James, you've been talking a lot lately about what the Federal Reserve can and cannot control. And I think there's this idea, I definitely had this idea that the Federal Reserve sets an interest rate, that's the interest rate across the board. If you want to get a mortgage, if you want to invest in government bonds, that's what the interest rate is going to be. But that's not really the case, is that correct?

James (00:19)
You're right. Most people tend to think that, most people probably don't have any awareness or visibility on the Federal Reserve. Those who do ~ have this idea that, you know, the Federal, you know, it's like the Fed chairman or maybe the Federal Open Market Committee, they kind of clap their hands and interest rates fall or interest rates go up. And that's just not the deal. That's not how it works. And even very experienced, intelligent people,

tend to believe this. know, guys that are really high up in finance, you Jamie Dimon, who's the CEO of JP Morgan Chase, he understands central banking extremely well. But even a lot of very, very smart people in finance and very successful people don't really understand this. And I would say even that includes the president of United States. I don't think Donald Trump understands central banking. And I'm not saying that as a dig. He doesn't understand central banking. I don't think he understands open heart surgery either.

that doesn't mean that he's not intelligent. It doesn't mean that he's not a smart guy or successful guy. Most people just don't understand central bank because it's a just it's a weird, weird thing. I mean, there's a lot of weird things about central banking and the primary dealer window and how all this, you know, the flow of funds and all this stuff works. I think a lot of central bankers probably don't even understand it. To be honest, there's an old quote that's usually attributed to Henry Ford and like a lot of old quotes, there's a

It's kind of suspect whether or not it's actually true, whether or he actually said it. But the point remains that he basically said, you know, it's a good thing that nobody understands central banking, otherwise there would be revolution before tomorrow morning. And that part's probably true. ~ It's just a weird situation where you give complete and total control of the money supply to this unelected group of people who have ~ a

pretty much an uninterrupted track record of never getting it right. And just continuing to expect that they're going to get it right, only to find out that these people don't have the power that you think they do. So central bank is just a weird thing. But the bottom line is, the central bank does not have the power that most people think. The central bank cannot just clap its hands and make interest rates fall. That's a complete misunderstanding that most people have about central bank.

Joe (02:47)
Well, so in that case, the question is, does the Treasury Secretary understand how

central bank banking works? Because he's been saying things like, I want to get the rates down. Yeah.

James (02:54)
Based on what he's saying, I'm not sure he does. Yeah,

based on what the Treasury Secretary is saying, I'm not sure he understands central banking either. And it's clear the president doesn't. And again, that's not a dig. If they don't understand central banking, they don't understand open heart surgery, they don't understand, I mean, they probably don't understand the nuts and bolts of cryptocurrency. mean, there's a lot of things they don't understand, and that's okay. I mean, there's a lot of things that all of us don't understand, and that's okay. But the point is that, ~

you have, in a nutshell, you have a committee that's comprised of various Federal Reserve officials, and some of these seats are permanent on the committee, and some of the seats on the committee are rotating, and it's called the Federal Open Market Committee, the FOMC. And the FOMC will, they have certain, what they call policy tools, and they're able to sort of manipulate their policy tools. One of those tools is, you know, there's a particular interest rate

they're allowed to set. And that particular interest rate, the federal funds rate, is basically the interest rate that banks used to lend to each other on an overnight basis. This is when, you know, Citibank rings up, JP Morgan says, man, I need a billion dollars like tonight. And JP Morgan says, no problem, bro, I got you. And so, they, you know, he sends you, they send a billion dollars over, and they pay it back the next day.

And you might think, why would anybody do this? Well, the reason why is because banks have liquidity requirements that they're required to keep. And so sometimes they might make loans, they might make investments, they fall a little bit short of those liquidity requirements. So they have to borrow money oftentimes for extremely short periods of time. And the federal funds rate is the policy lending rate that banks use to lend to each other, literally for an overnight period. And they annualize that. And so that's what the Federal Reserve

sets. They have like a target range where they say, we want the Fed funds rate to be between five and five and a quarter percent, or between zero and 0.25%. It's always kind of like plus or minus 25 basis points or 0.25%. And so that's what they that's ultimately what they set.

Joe (05:06)
Banks have to lend to each other. Is that one of the regulations?

James (05:11)
~ Well, it depends on the jurisdiction that you're in. Banks are always looking to lend. mean, that's the business that they're in. And so if they have cash and they have a

reputable credit-worthy counterparty that wants a really, really short-term loan, if you have the liquidity to do it, mean, let's be honest, if Bank of America wanted to borrow a bunch of money, if you had an extra billion dollars lying around and Bank of America wanted to borrow overnight,

would probably take that deal. Most people would probably take that deal because it's a really short-term loan. It's a credit-worthy counterparty. Now, longer term, we've talked about this before, and this is maybe a whole separate discussion, but Bank of America has a lot of pretty serious financial problems. I their unrealized losses are massive. Not to the point that I would be super concerned that they're going to go under, but I mean,

they could have a lot of their capital wiped out. They'd probably have to have some capital calls to have their dividends suspended, a whole lot of things. And it's noteworthy, think Warren Buffett figured that out, which is one of the reasons why he was dumping a of his bank stocks, including Bank of America. That's a separate issue, though. But the moral of story is that the Federal Reserve does not have the power to clap its hands and say, let the 10-year note be

Joe (06:21)
Right.

James (06:34)
4%. They don't have the ability to do that. They don't just snap their fingers and clap their hands and set government bond yields. They don't do that. They have policy rate, and one of their policy rates is the federal funds rate, which is literally the overnight rate that banks use to lend to one another. That's the thing. Sure, they can, with a stroke of a pen, they can set that rate, but that's a completely different interest rate than your mortgage rate, than my credit card rate.

than the federal government's 10-year government note bond yield. These are completely different rates. so there's just this confusion, the very popular confusion that people just think that the Fed can again clap its hands and like all these rates just come down. That tomorrow morning, if the Fed wanted us to all have 2 % mortgage rates, the Fed could just snap its fingers and make it happen tomorrow. And that's just not the deal. That's not how it works. Those rates are up to the bond market.

not just the Federal Reserve. The Federal Reserve is a major player in the bond market, but the Fed is not the bond market, especially not right now. That's just not how it works.

Joe (07:43)
Do you know, out

of curiosity, do you know the rationale behind the Fed setting that rate? Like, why wouldn't we just have market rates for banks lending to each other overnight?

James (07:51)
Right.

Why is there a Federal Reserve at all? mean, the reason why there's a central bank, I the history of central banking goes back hundreds of years. The first central bank in the world was actually, a lot of people think it was the Bank of England, but it was not. It was actually in Sweden. Sweden was the world's first central bank. And then shortly thereafter, there was the Bank of England. And the idea was that in a really severe crisis, you needed to have

some lender of last resort, because you had some commercial bank that was going under and all these other, you know, let's say there's a banking crisis and you had some bank that was going under and then another bank started going under and then, you know, this other bank was about to go under, but it needed liquidity and everybody would be too afraid to lend in that system and all the banks would collapse as a result. And so what they said is we need a lender of last resort who would go in with these emergency loans to bail out the banking system.

restore confidence and make everybody think that their deposits were safe. Well, there's an easier way to make people confident that their deposits are safe and it's just don't have that system to begin with. mean, the whole concept of banking when you think about it is really it's based on a lie, it's based on a fraud. You deposit your money at a bank and the bank says, sure, Joe, I'll take your money and then you have the right

to to the bank at any time and withdraw your money. But what does the bank do with your money? They leave a little tiny bit of it in reserve and they go and they loan the rest of it out. So there's this great old movie ~ back in the, I want to say it was the 1950s called It's a Wonderful Life. And ~ it's a wonderful life. It's actually like this story about this small town banker and he goes in and ~ it's like the.

the bank's about to go under and all the angry townspeople come in, they say, I want my money back. the guy says, well, I can't give you your money back because it's in John's house and it's in Bill's house. It's in Steve's house because that's what banks do. They take your deposit. Well, is. know, Jimmy Stewart, you know, Jimmy Stewart. I mean, this is like talk about like a change in Hollywood. mean, Jimmy Stewart was like a legit, I think he was like a two or three star general in the Air Force.

Joe (09:57)
It's a great Jimmy Stewart impression, by the way.

James (10:11)
And not just like, you know, like a Hollywood, you know, he went and did photo ops. This guy flew fricking combat missions when he was a movie star. Like it wasn't like he was before he was famous, whatever. This guy left Hollywood to go and fly combat missions in war, came back and maintained his like reserve status and continued to rise through the ranks and became a freak. I mean, it would be like Clooney, you know, up special operations command, you know? I mean, it's just,

it's mind blowing to think about that today because you just I mean, today you've got these guys that are just hardcore, wokey, communist, ultra liberal, you know, I mean, and like, it was just a different era. It was a completely different era. Right.

Joe (10:53)
Yeah, because he also did Mr. Smith Goes to Washington, which was a pretty...

James (11:03)
Nothing compared to no. Yeah, no, that's right. But that's the way bank works, right? I so it's like, I mean, just you can imagine a banking system where you actually deposit your money and the bank holds onto your money. mean, that's kind of, I mean, it's a weird thing when you think about it, because like, you pay fees on your bank account. I mean, like a lot of people pay fees.

And you go, you you deposit your money, they charge you fees, deposit, charge you deposit fees, they charge you incoming wire fees, charge you outgoing wire fees, they charge you custody fees, they charge you monthly fees, they charge you annual fees. I mean, it's crazy. And it's like, why are you charging me fees? If you're charging me a fee, you should be holding onto my money and just safeguarding it. I mean, almost like, you know, it's like if you, if you take your like, you know, your spare like living room furniture set, and you take it down to like the local

know, you store it place. They're not going into your, they're not going into your storage unit and loaning out your sofa. They're not loaning out your futon and like making extra money on this.

Joe (12:02)
No, but this is a great idea

for a new business. There is right now.

James (12:06)
~ No, but it's true. It's like that's in a way that's what banking is supposed to be. It should be no different than just a secure self-storage business where you go and you take your living room furniture and you put it in a self-storage facility, you pay these guys, you know, 20 bucks a month, whatever, for some little facility. It should do the same thing with your cash. I mean, you go and you take your savings, you take your salary, whatever, you put it on deposit, you know, maybe you pay a little fee and, you know, in order to do that and that's

Realistically, like that's what banking is supposed to be. And instead, they turn into this legal system where the bank only has to keep this teensy tiny little bit of your money and they get to get loan the rest of it out and then they get to keep all of it. So they're putting your money at risk and then they get the government basically to bail out that risk for them in case things go bad. They've got the FDIC, which banks do technically pay.

~ an insurance premium to the FDIC, but ultimately it's backed by the federal government. It's backed by the federal government. And so, I mean, it's a bizarre system where banks get to put your money at risk. They get to keep all the upside. They get to charge you fees for the privilege of doing so. And then they get to waste your time with this endless bureaucracy of give me this, show me this. I want 18 forms of ID and your blood sample and your DNA and all this kind of stuff.

just because you ~ you you wanna withdraw a couple thousand dollars in cash and you know, they're go and call the cops on you and file suspicious activity reports and rat you out to the federal government because you want your own money. mean, this is the state of banking. It's utterly obscene. And this is one of the reasons why I just, love the, you know, the entire concept and ethos of crypto is because it just gets, it just, I mean, any decentralized system that gets rid of.

banking system, I think, makes a lot of sense. I think the banking system in general is absolutely in desperate need of prime hardcore disruption because it's just so bad. And the very basis of it is fraud. It is you're going to give them your money. And it's basically this promise of you can go and show up any time and take your money back. But how are they actually going to do that if they've gone and they've loaned out 90 % of it?

can go and you can withdraw 10 % of your money, but you can't withdraw 100 % of it because if everybody did that, the bank would go under and there would be a crisis. And that's why they invented central banks. Because if there was a deposit run and all of sudden everybody wanted their money back, the banks would go under. God forbid the banks can't go under. know, we have to, everybody's going to die on this hill that we have to save the banks. We have saved the bankers. And so in order to do that, we create a super bank.

to bail out all the other banks and we give the super bank control of the money supply and we let these unelected super bankers, that's what central bankers are, we let these unelected super bankers set control of the money supply, we let them expand the money supply, we let them conjure money out of thin air, create inflation, all of these things in their sole discretion without any oversight through the democratic process.

completely bizarre. Hence why I agree with this supposedly Henry Ford quote that if people understood this, there would be revolution before tomorrow morning.

Joe (15:31)
And you mentioned ~ confidence in the system as one of these things that holds it all together, which often seems the case with a lot of these things involving government. Well, in the past,

James (15:39)
Very thin veneer of confidence, yes. It's actually not confidence,

Joe, sorry, but it's actually more ignorance. People just trust the system works because again, nobody really understands it. Nobody understands it. They have misconceptions. This is why they think that the central bank can just clap its hands and bring down mortgage rates and the central bank can clap its hands and bring down credit card rates and government bond yields. And they do have the ability to do that.

there are serious consequences of that. Their normal policy rate, again, the federal funds rate is the rate that they do have the ability to just set. They can snap their fingers and set the federal funds rate. But setting the federal funds rate is a very, very short-term rate. And so what often happens is the shortest-term interest rates do tend to fall along. So if they slash the federal funds rate from 10 % to 2%, just kind of to make up some numbers, yeah, for the most part, you're going to see definitely short-term interest rates.

short-term bond yields, you'll see the 28-day T-bill and the 90-day T-bill, because those are going to mirror this ultra short-term overnight lending rate. But people that are in the business of buying and investing in 30-year bonds, they don't give a shit what the overnight lending rate is. It doesn't matter. It's like, man, I got 30 years of overnight lending rates to deal with. What do I care what the overnight lending rate is? They're looking at making a 30-year investment based on the credit worthiness of their counterparty.

based on the credit worthiness of the issuer. And as the US government's financial position worsens at a quickening rate here over time where you got $36 trillion, $37 trillion in debt, $2, $3 trillion annual deficits, et cetera, people are really, the central bank tomorrow morning, the Federal Reserve can say, we're going to cut rates, we're going to cut our overnight lending rate, the federal funds rate by 50 basis points. And the 30-year bond yield could go up.

Joe (17:35)
Well, that's what happened last year, wasn't it? When they started to cut rates is that they diverged.

James (17:35)
so it's exactly what happened. That's what happened.

The Federal Reserve between September 18th and December 18th, 2024, there were three interest rate cuts in total of about 100 basis points or 1%. And what happened over that same period, you know, the 10-year Treasury note, the yield on the 10-year Treasury note, instead of going down by 1%, it went up by about 1 % over the same period. So that's like a, basically, instead of going down by one, you went up by one. So you had a

basically a 2 % difference in what should have happened. Right? So, and why was that? It's because there is a disconnect between the Federal Reserve just setting its policy rate and saying, yeah, rates are now this. Okay, well yeah, your dinky, pointless overnight lending rate is now that, but the 10-year Treasury note is set by the bond market. That yield,

Joe (18:29)
But even in past,

even the 10 year would kind of mirror what the Fed said. That's what I was trying to ask with confidence earlier. If people have confidence in the system, then suddenly that 10 year rate does move in line with what the Federal Reserve says.

James (18:41)
If you go back

a time, ~ there have definitely been periods where the Fed could set the overnight lending rate. The overnight lending rate would drive short-term treasury yields. Short-term treasury yields would drive long-term treasury yields. And so you'd see kind of a general, if they cut rates, you would see rates generally decline. It was never like across the board where they said, we're gonna cut rates by 50 basis points. And all bond yields, all interest rates in the entire economy fell by exactly 50 basis points.

That's never been the case. That has never, ever, ever been the case. But there have been times where if the Fed said, we're going to cut rates by 50 basis points, that in general, you would see kind of a general decline across the yield curve, rates in the economy, mortgage rates, auto loan rates, credit card rates, et cetera. You could see general declines in rates. And there have been times where that's the case. But now is a much more dysfunctional marketplace.

And a big reason for that is simply because of this massive debt overhang at Treasury. The US government owes $37 trillion, and that's up 800 billion. That's up almost a trillion dollars just in the last month, month and a half. It's just crazy how quickly the debt is increasing. And that's the reason why the Fed can say, we're going to cut rates. But it's bond investors. It's investors around the world who buy US government bonds

They look at the Fed and say, okay, the Fed cut rates, great. But then they look at the Treasury Department and say, man, $37 trillion? No, I'm not taking a lower rate on this just because the Fed said so. I have to take a lower rate? No, thanks, I'm out. I'm just not going to buy. And so those yields, those bond yields are ultimately set by supply and demand. And so if you have more investors who want to buy them, demand goes up.

And ultimately, that means that yields are going to fall. But if you have fewer investors who want to buy these government bonds, or you have a greater supply of government bonds because the government keeps issuing more bonds because the deficits keep going up, then, you know, yields are going to go up. Yields are going to go up. And this is something that every time they open their mouths and start talking about this, both Donald Trump and Scott Bissen kind of proved that they don't maybe fully understand the dynamics of this. And again, it's not a dig. I'm not saying that they're not smart guys. mean, frankly, think intelligent, very successful guys, but the bond market is just a little bit of a different animal. I think the Treasury Secretary said recently, we're gonna go, basically, I'm just gonna paraphrase, we said, we're gonna take control of the Fed, we're gonna get in there, and we're gonna lower the rates. And you can't do that by just simply cutting the federal funds rate. That's not gonna move the needle on the 10 year.

If they slash the federal funds rate all the way to zero, okay, you might see some downward pressure on the 10-year yield, but it's not going to, I they need the 10-year yield to drop to like, I mean, they need like a 2 % 10-year treasury yield in order to kind of rein in interest expense because that's the biggest problem that the federal government, biggest financial problem that the federal government faces right

Joe (21:58)
Thank

James (22:04)
that its interest expense on the national debt is about $1.2 trillion a year right now. And they've got, you know, and it's going up. And the reason it's going up is because they had all these bonds that they issued a couple years ago, all this debt that they issued in the past, and that debt is now maturing. You know, if they had a five-year Treasury note that they issued in August 2020, when that yield was basically 0%, you know, the five-year yield,

in August of 2020, five years ago, was basically 0%. Well, guess what? It's five years later. That five-year note that they issued in August 2020, it's maturing now. And the government's not just going to pay it back because they don't have the money to pay it back. So what are they going to do? They're going to go issue new debt to repay that old debt. Well, guess what? They're going to repay old debt that cost them 0%. And now they got to borrow that money at like 4.5%.

So their interest costs just keeps going up, up, up, up, up. And so how do they get this under control? They're just desperate for the Federal Reserve to lower rates. And this is why the President has been extremely critical. Too late, Powell, he calls him like Jerome Powell, the Chairman of the Fed, is saying, oh, he's too late on interest rates, he needs to cut rates now. Well, just again, I am no fan of the Fed. I'm no fan of a lot of these Fed officials.

But the reality is that Jerome Powell is one guy on an entire committee of people that has to vote. So he's one vote on this committee. Number two, the committee sets the policy for this super short-term overnight lending rate and can't just clap its hands and change the yield on the five-year or the 10-year Treasury note. That's just not how it works. And it's just crazy. Donald Trump keeps saying this. He's got to cut rates. He's got to cut rates. He's not able to do that.

He's not able to clap his hands and cut the 10 year yield to zero. That's just, again, I am no fan of the Fed, but the Fed is not capable of just cutting the 10 year yield, just snapping its fingers and cutting the 10 year yield down to zero. Any more capable they are of making the Dallas Cowboys win the Superbowl this year, which also ain't gonna happen, right? It's just not within their power. It's not within their power.

Joe (24:20)
But the Federal Reserve does have a way to lower interest rates. It's just not by setting the rate.

James (24:24)
Yes, sir.

So everything I said had this little asterisk at the top. And the asterisk at the top is they don't cut rates by just clapping their hand and say, let there be lower rates. That's not how it works, right? But the tool that they have available is essentially what we call printing money. And I always have to do air quotes around it because it's not, you know, it's not the U.S. Mint. The U.S. Mint is the agency within the federal government that actually prints money. They have a printing press and they've got all these things and they actually print physical pieces of paper.

The Fed doesn't use physical piece of paper. They don't bother with it's too slow, too inefficient, too costly. They do, on the other hand, create money electronically. And most of the money in the system, mean, very, very little of US dollar money supply is actually physical coins and currency. It's a very, very small percentage. Most of the money, I mean, people talk about cryptocurrency, the concept of digital currency. Again, the US dollar is a digital currency because the vast majority, all of this money that's sitting in your bank account,

~ or credit cards, all this sort of stuff. mean, credit card transactions and bank transactions, it's all electronic. It's all digital, right? It just happens to be in a very centralized system, but it's all digital. And so when the Fed creates money, they go through this complex process where they have the primary dealer window and they, but they end up basically creating money and buying government bonds. Sometimes those are like housing bonds, like Fannie Mae and Freddie Mac. Sometimes it's actually directly

US government treasuries. could be kind of a mixed bag. But that's what happens. And so when they expand the money supply, we call it printing money because it has the same effect. then and they've done this, they did this after the 2008 financial crisis. They printed about three trillion to three and a half trillion dollars after the 2008 financial crisis. And that was a lot of money. That was a lot of money. I mean, it's a lot of money today. It was a really lot of money back then.

because at the time, the Fed's balance sheet was about $850 billion right before the crisis. And after the crisis, it was about 4.5 trillion, right? So that's a difference of, let's say, $3.7 trillion. That's roughly the amount of money that they created in the system. Where does that money go? Well, it goes to banks, and then the banks kind of deploy it around the economy. They make loans, goes into the stock market, it finds its way into, I mean, it's inflation. It's inflation. I mean, you have

We've talked about this before with inflation, you have asset price inflation where stocks and bonds and real estate and cryptocurrency and all these things, the prices of all the stuff just goes to the moon. And then you have retail price inflation where your eggs and your food and their gasoline and your heating bill and electricity and all this stuff goes up. you can have both of them for a long time. Retail price inflation was low, but asset price inflation was really high. And there are consequences to asset price inflation as well. We've talked

this before. You know, it's great if you own assets, if you're some people that don't own assets, you start feeling farther and farther and farther, you know, you're left behind, you fall farther and farther behind. And that creates their social consequences to that. You know, what we saw during the pandemic, this time around, the Fed printed about $5 trillion. Their balance sheet went from roughly $4 trillion to $9 trillion.

And ~ that $5 trillion that they printed, we got some asset price inflation out of that, but we also got retail price inflation. Everybody felt it and it still exists to this day, but it peaked out at, according to the government numbers, it peaked out at 9%. The CPI hit about 9 % at peak, but there's still a lot of inflation today. I was telling you earlier, I like just got the renewal on my life insurance policy and ~ the price is up ~ over 9%.

know, year over year, just from last year to this year. And I sent these guys an email said, man, what the hell? You know, they gave me some lame excuse. I mean, you know, inflation is still absolutely very much with us. It has not gone away.

Joe (28:23)
And when the Federal Reserve, they obviously buy government bonds, but they have intervened in other aspects of the market too. They have a whole balance sheet and they buy other assets as well. Is that correct?

James (28:35)
The Fed does all sorts of things. I mean, you remember when Silicon Valley Bank went bust and, ~ you know, they created this thing called the Bank Term Funding Program. It was basically a big bailout of the banking system, BTFP. ~ You know, we nicknamed it lot of different things, believe the effing paper, ~ you know, all this stuff, you know, was like, it was basically the idea behind the BTFP was when the Fed told all these banks and said, you can take all of your like crappy securities.

And you can borrow money from us using your crappy securities, your worst, crappiest collateral. You can use that as collateral for like a loan and we'll give you a loan and we'll just pretend that your collateral is worth 100 cents on the dollar. Even though the market value might be like, you know, 50 cents on the dollar, we're just close our eyes and go, la la la, and we'll just pretend that it's worth 100 cents on the dollar. And so they do stuff like this a lot. They just, they just engineer, you know, unique and exotic, ~ you know, lending instruments and things like that to go and bail. You it's like, you know, you know, there's like old Oprah shows where she'd show up and be like, and you get a house and you get a house. And, know, it's just sort of, it's, that's how the Fed is with the banking system. It's, know, it's just, there's no, if there's a bank in need, you know, the Federal Reserve is here to just shower you with capital. ~ And they just, they just get to hit a button and, and money just falls out of the sky. And that's, you know, so it works, but that money falling out of the sky has consequences.

We're talking about this in our most recent edition of Shift Sovereign Premium. There's a very popular series. It's a Spanish kind of action drama. It's on Netflix and Netflix it's called, what's it called? Money Heist? Casa de Papel in Spanish. And Netflix I think is called Money Heist. And the idea is like in the first season, and you know, this is no spoiler because it's like the first few minutes of the first episode, I think. ~ But the basic idea is that they,

Joe (30:16)
Pass a ~

James (30:33)
said, well, they're going to rob a bank, but they're not actually robbing anybody. Instead, they go into the Spanish like national mint and they just print euros. You know, they said, we're not stealing from anybody. We're just printing new money. And so, we're not stealing. And that's basically what a central bank does. You know, the central bank will do the same thing. They just create new money. And in a way, it's kind of like, well, why does central bank get to do it? But, know, regular people don't get, you know, regular people went and did that stuff, you would get arrested in the United States.

Joe (30:46)
stealing from everybody.

James (31:02)
the law enforcement agency that has purview over the currency is actually the Secret Service. It's a funny thing, like quick story, but I remember when I was in the army, one of the soldiers under our command in our unit, turned out this guy was like out in the local economy. He had actually created his own like hundred dollar bills. And one day like the Secret Service shows up, I was the executive officer and he shows up and it's like Secret Service shows up, my commander calls me in.

He's like, yeah, this secret services like these special agents are there. And, you know, they show us like this money that this guy used it. He like printed out like on his like inkjet printer was like these really bad hundred dollar bills. And you know, they went and cuff this guy like perp walked him, you know, back to their, you know, black SUVs, whatever and drove them away. And, know, yeah, exactly. He's just a central banker in training. mean, you know, but, the reality is, and they say in the show, they go, we're not hurting anybody. We're not stealing to anybody. But

Joe (31:51)
He was just a central banker.

James (32:01)
that's what happens, you know, when you increase the money supply, when the money supply increases and you, you know, there's not a consequent increase in the supply of goods and services, which everybody else has to work really hard to increase the supply of goods and services. And so if one guy or one unelected committee can just hit a button and there's all this money that pops out of the, you know, into the financial system and there's not an increase in the quantity of goods and services, you just end up with inflation.

end up with inflation. mean, if there's more money that makes its way into any market, whatever that is, is going to go up in price. If you think about even it's the same thing we talked about asset price inflation. If all of a there's an extra $5 trillion in the system and a lot of that money goes into the stock market, we think about the S &P 500. There's only 500 companies in the S &P 500. It's actually a little bit fewer than 500 companies in the S &P. There's only so many shares of Apple. There's only so many shares of Nvidia.

And so if you all of sudden bring in trillions and trillions of dollars into the market, well, obviously the share price is going to go up because they're not issuing new shares, right? There's a finite amount of shares. There's a finite amount of whatever in the economy. There's a finite amount of eggs. There's a finite amount of fuel. There's a finite amount of all these things. And so if you flood the market with new money, of course the prices are going to go up. The price of everything is going to go up. And it just, it sort of depends on circumstances that particular time.

what's going to go up in price more than, sometimes like a particular product or particular market has unique circumstances that make the price go up more than other things. In the early 2000s, some people old enough to remember this, they printed a lot of money after 9-11, right? There was a recession after the terrorist attacks in 2001, they printed a lot of money. And in that particular case, most of the money made its way into the real estate market. know, had, mean, real estate was going like to the

moon. was insane. And then that bubble burst and then you had, know, after the 2008 financial crisis, what do they do? They printed more money. Then you had all that money end up in the stock market, right? And then you had the pandemic, they printed a lot of money and then that money was just going everywhere, everywhere because it was so much money. And it went to the stock market, went to the housing market, it went into, you know, art and collectibles and crypto and NFTs and just kind of weird stuff. And it also went into eggs and food and fuel and, you know,

~ utility costs and all that stuff as well. And you got to cross the board inflation. And so I think the moral of the story here is that the point, if you take away nothing else, you have to understand this. A couple things. Number one, the federal government of the

United States is spending $1.2 trillion a year just to pay interest on the national debt. And they are desperate to bring that down. Number two, their approach in bringing that down isn't like, hey, let's just cut spending.

Let's make the tough political choices that voters elected us to do and cut spending. Nobody wants to do that. So instead, they're saying, well, let's see if we can just cut interest rates. If we can cut interest rates, we can reduce our interest bill. We can bring that $1.2 trillion annual interest bill down. So let's just do what we got to do to cut rates. How do do that? Well, let's just bully the Federal Reserve. Let's publicly mock.

the Fed chairman and say we can bully and intimidate this guy into cutting rates. And if we can't do that, then let's just hijack control the Fed. Let's try and fire the guy. Let's bide our time and wait until he has to step down next year and replace him with our person. ~ somebody just two weeks ago resigned from the Fed. Let's immediately put our own guy and fill that position with our loyalist who's gonna march to the tune of whatever the White House says. And then next year we'll have another guy and another one and another one. And basically we'll end up hijacking control the Fed.

over time, and then our Fed will clap its hands and cut interest rates. Point number three is that this is a blatant misunderstanding of the power of the Federal Reserve. The Fed cannot just clap its hands and cut interest rates. The policy rate that the Fed controls is the shortest term overnight lending rate. And the overnight lending rate, if they cut that overnight lending rate by 1%, that doesn't translate into a 1 % rate cut.

in the 10-year Treasury note, in the 30-year Treasury bond. And we know this to be true because the Fed cut rates by 1 % last year. From September to December 2024, they cut rates by 1%. And those long-term bond yields went up, not down, because who ultimately controls, especially the long-term part of the yield curve, the 10-year Treasury, the 30-year Treasury, is the bond market, not the Federal Reserve. And kind of the final key point here is that

the Federal Reserve's power to actually, if they really want to get in there and control interest rates, they do have the power to do so, but it comes at a significant cost. Because the power to do so is to essentially print money, to expand the money supply. And the consequence of expanding the money supply, like they did in the early 2000s, after 9-11, they expanded the money supply, like they did after the global financial crisis.

They created trillions of dollars after the GFC like they did during the pandemic. They created $5 trillion during the pandemic. And so what did we get? What was the consequences of all those episodes? We got inflation. Sometimes we've got asset price inflation. Sometimes we've got retail price inflation, or sometimes we've got both asset price and retail price inflation. And this is the consequence of what they're going to do. And what I would encourage everybody is to first understand this. It's important to understand these, these

these key points. you know, if you can, I mean, this isn't any wild conspiracy theory.

They're telling you, they're telling you, the Treasury Secretary of the United States is telling you, we're going to get in there, we're going to cut those rates. I mean, this is in his own words, telling you that they're basically going to hijack, control the Fed and cut interest rates. And what they're going to find out is that the only way to really cut rates is to print money, is to expand the money supply. And that

is inflationary, but you can prepare for it now. It's not the end of the world. It doesn't mean that, you know, we're all going to die and spontaneously combust or whatever. It means that there are certain things you can do now to prepare for this. And a lot of these things make sense regardless of the scenario, even if they reverse course, even if they reverse course, say, ~ just kidding, we're not going to do any of that stuff. Well, you know, if you've prepared for inflation by buying a, you know, a company that's a producer of

you know, real assets, certain commodities, precious metals, and you're able to buy that company at two or three times earnings, and it's a profitable business and pays a, seven or 8 % dividend yield. It's hard to imagine you're worse off if all of a sudden they decide to reverse course on that because at least you have a successful, profitable, dividend paying, well-managed business that you purchase as a hedge, but you know, hey, you know, it's still doing well for you. It's still a profitable business. It's still putting money in your pocket.

And so it's hard to think that there's like a ton of downside from that scenario. But if they proceed down that path and what happens, this company that you bought for nothing, for nothing, you know, now all of sudden it just soars to the moon and beyond because the underlying commodity that it's producing becomes so valuable in that inflationary environment. So this is the way that we approach this. It's not from position of panic. It's not from a position of weakness. It's from position of be rational, think about it rationally.

Understand the problem understand the solutions and and there's plenty of very rational solutions rational approaches out

Joe (39:48)
Well, and you're talking about this money making its way into assets in general. But the government right now is also talking about putting money into these assets directly. They're talking about taking a 10 percent stake in Intel and they're talking about a sovereign wealth fund. And we've discussed this in the past, how this

James (40:03)
Take taking a taking

a 20 % cut from, you know, certain Nvidia's Nvidia sales. mean, yeah, it's, ~ it's a it is definitely you know, the term floating around, I think is absolutely right is national capitalism. ~ And I think that's exactly the right way to label this. It's it's it's a national capitalism. And it's weird to see. It's weird. ~ You know, I, I personally don't think

I mean, and obviously in a pure free market, the government doesn't have any, ~ shouldn't have any involvement in what private companies are doing or not doing. it's definitely, it's bizarre to see. ~ I mean, it's not like they haven't tried this before. mean, they went and the government came in and put a lot of money in General Motors. remember a lot of people remember the Cylindra fiasco. I mean, there are so many of these. Now they want to put a bunch of money in Intel.

Intel's problem, I to say, I like, I'm the chairman of a small semiconductor company. mean, you know, Intel's problem is not the fact that like, they don't have access to capital or, I mean, they've been rudderless for a really long time. They've had poor leadership for a really long time. And it shows Intel is the Boeing of technology. You had a company that practically established this industry.

and used to be the best of the best was the envy of the world. And through complacency, bad decision-making, lack of vision, poor leadership over a long period of time, not only lost its way, but has completely been just, has succumbed to the competition and just can't manage to figure it out. And to me, I look at this and go, and you want to give money to this organization? You want to give money to an organization? want to, I mean, they're talking about $40 billion.

that Intel needs, you want to give $40 billion to a rudderless company that has a track record of pitiful leadership and bad decision making? I mean, why don't you just give it to Gavin Newsom? Why don't you just, you know, why don't you just give it to the state of California? I mean, you know, it's like, if anything, companies that have smart, talented leadership, companies that have great competitive advantage, companies that have a track record of success, those are the ones that should

know, be, you know, that should have, you know, that should attract capital and they can attract capital. Nvidia has no problem if they wanted to go out and raise money. You know, Jensen Huang went out and said, hey, we want to raise, you know, $50 billion. Not that he would, not that they need it. But if he wanted to raise the money, he'd have the money in two seconds. Two seconds. If Intel needs the money, they got to go to the government. They got to go and get on their knees in front of Donald Trump. They got to go and beg all everybody else in the industry because they have a terrible track record. Sometimes bad things happen to great companies.

Sometimes it's just really bad circumstances, a really bad turn of events that happens to an otherwise solid business. And there are some circumstances like that that do happen from time to time. That's not Intel. Intel used to be a great company that just ended up ~ being over, again, years of just poor leadership and bad execution and lack of vision, all these things just ended up being a crappy business. And it's just weird to think we want to give a crappy business taxpayer money.

tens of billions of dollars, potentially a taxpayer money, I think is a terrible idea. I think it's a terrible idea. It's a terrible, terrible, terrible idea. you know, whether or not they go through with it, we'll see. Right now, it's just an idea being floated.

Joe (43:34)
But

is that why these ideas in general are doomed to fail? Cause they'll just choose the wrong companies. For example, we've talked about in the past, if social security wanted to be saved, what they could do is ~ create some sort of fund, sovereign wealth fund that invests in things. And then maybe even sell a special bond that's backed by actual assets. And that way people, could get ~ a ~ lower interest rate on that, which people would be willing to, ~

to accept because they have something backing it versus typical government bonds. There's nothing backing it and they just have to rely on the interest alone. But if they end up going down this route, is it just going to be a ton of crap investments that are government connected and don't actually have any potential?

James (44:22)
Every, every, this is, I'm not labeling this as a command economy, but I mean, every command economy throughout history, you know, has a, has a track record, an unblemished track record of poor investments. The Soviets had poor investments, the Chinese built ghost cities. I mean, it's just, you see this stuff over and over and over again. And, and, know, a lot of times everybody that tries it always thinks that this time will be different, that they're smarter than everybody else. I ~ look,

There are, you know, we've been very critical of this administration a number of things. I think they're doing a lot of things that are really great. ~ We've also been very critical on a number of things. You we've talked about Liberation Day and, you know, trade and tariffs and a lot of that stuff. I do think that some of the things that they have, some of the gripes and complaints that they have about international trade, they're absolutely right. They're absolutely right. I think ~ the way that, you know, other countries put barriers up against the United States, but the U.S. lets all these products in, I think they're right about that.

But the way they've gone about doing it here, just upending all the rules of global trade and nobody has any idea what's happening and what's going on, what next month's gonna look like and what next year is gonna look like. That's a great way to really hamstring your economy. And we've been very critical about a lot of things. There hasn't been enough focus on cutting regulations. There's been no focus on cutting spending. So we've been critical. ~ And so what I'm gonna say here is actually not intended as criticism.

just an observation. And my observation is that, yes, like this is national capitalism. That's what this is. And I think that they like that. think they like the, I think these guys like the idea of having this big seat at the table in the economy and being able to tell CEOs what to do and how you should do it and what to produce. And, you know, basically, I think they like the idea to feel like all these guys work for them. You know, Tim Cook and know, or Jensen Wong, all these guys kind of just work for them, and that they get to make these commands and dictates for the, you know, for the greater good, for national security, for all these sorts of things. I think they like that. And it's not a criticism, it's an observation. ~ And what I can absolutely see is something that this is not my idea, this is not a conspiracy theory, they've talked about this as well. These words have come out of their mouth, they've talked about starting a sovereign wealth fund.

And I guarantee you the first thing they're going to do with a sovereign wealth fund, if they get it up and running, and I think they probably will, is they're to go buy stocks. And so I'll tell you this, if it looks like a sovereign wealth fund is actually going to have traction, you should do whatever you have to do to buy stocks, especially technology stocks. If you have to sell plasma to scratch together some cash to invest in the stock market, you should do that.

because the government, and I'm not giving anybody medical advice on any of stuff. I, yeah, either way, but it's just a question of supply and demand. Remember, there's only 500 companies in the S &P, technically fewer than 500 companies in the S &P 500. So if all of a sudden the government goes and raises a multi-trillion dollar sovereign wealth fund and invest that money in stocks, especially in a relatively short period of time,

Joe (47:19)
Medical or investment advice is the same thing.

James (47:44)
What's going to happen to stocks? There's a finite number of shares available to these businesses. There's a finite number of people that are willing to sell shares, i.e. the liquidity in those shares. This is a finite number. So if all of a there's trillions of dollars more coming into that market where there's a finite level of liquidity, what's going to happen to the stock price? It's going to go up and it's going to go up a lot. It's going to go up a lot. so you have to pay attention to those signals. And I think

Joe (48:10)
Just buy whatever

Nancy Pelosi buys.

James (48:12)
Right. Well, know, hey, Nancy Pelosi isn't buying anything. Her husband, on the other hand, is just a damn genius that makes Warren Buffett look like a pathetic amateur when it comes to picking stocks. The greatest investor in the history of the world, Paul Pelosi. So whatever this guy's buying, everybody else should be buying as well.

Joe (48:31)
So what do you mean when you say that getting interest rates down is going to maximize their chances of success?

James (48:39)
Donald Trump's been a real estate developer his entire life and real estate developers use leverage. They borrow money and they invest in real estate projects. your chances of success are a lot higher. If you can borrow money at 2%, you're probably going to do a lot better than if you can borrow money at 9 or 10 or 12%. And that's the deal. mean, this has been the case. This is the case with a lot of hedge funds, with private equity.

a lot of investors and investor groups, borrow money, they borrow lots and lots of money to invest in their projects or to make their investments. And it just would not surprise me at all that given that this has been what these guys have done for their entire lives, the president of United States, the treasury secretary, the commerce secretary, these guys have borrowed lots and lots and lots of money throughout their entire lives. So it would not surprise me at all that the way they're thinking about this is let's get interest rates down.

Let's go out to the bond market. Let's borrow lots of money from the bond market and let's invest and create a sovereign wealth fund and make money off of that. And again, you're just going to do better in a lower rate environment. We talked about this before I told you, like a few years back, and we bought this apartment building, this apartment complex in North Carolina. paid like a little less than $20 million. And like a couple months later, some other investment group came in and offered

substantially like more money, like millions and millions of dollars more. And I remember, I I looked at this and I said, that's not supposed to happen. know, real estate is not supposed to go up that fast. And so like, I'm out, I hit the bid. Because if somebody wants to give me a stupid amount of money for something like, I don't care, like, I'll just sell it. And we did the math on it. And we realized that the only way

that that deal could have worked for them is if they were able to borrow lots of money at like 2%. And sure enough, they were. They were. And that was kind of the environment at the time, and that they were able to do that. And a lot of real estate developers have been able to do that. And a lot of stock market investors, hedge funds, they've been able to borrow money at very, very low rates, because that's usually the success story. If you can borrow money at really, really low rates return. If you can borrow money at 2 % and invest in the stock market and make 8%,

going to want to do that all day long. so I'm convinced that that's part of the strategy here. And I would not be surprised at all to see these guys, you know, basically take control of the Federal Reserve, try to get rates down. And what they're going to realize is the only way to get rates down is by having the Fed create money, expand the money supply, and then use that to borrow money and use that borrowed money to create a sovereign wealth fund and use that sovereign wealth fund to invest

in the stock market that is being inflated by all this money printing. so it just, you know, I think the government's trying to figure out how do we benefit from the inflation as well? How do we benefit from inflated asset prices and use that to pay? I mean, in a way, if you were, I mean, if you want to be really clever and take that to its nth degree, you could almost, you know, pay down a significant portion of the national debt with that. I mean, if you get interest rates down to 2 % and, you you borrow money at 2 % and you're able to make, you know,

8, 10, 12, 14 % returns on that. I mean, you can do extremely well, especially if you're talking about trillions of dollars at a time, you can do very, very well with that. I'm not saying it's a good idea. I just think this is what these guys have done their entire lives. And so this is what I think we're probably in store for is potentially an asset price bonanza. So I'm telling you right now, if we start seeing signs where this is actually going to happen,

they're actually going to launch a real sovereign wealth fund and they're going to borrow money from the bond market to actually capitalize this sovereign wealth fund. Watch out. I mean, this is, I think we could see a massive asset price bonanza as a result of that. And it's not something I think you're going to want to get left.

Joe (52:43)
Before you go, I wanted to change topics and ask you about ~ Total Access, this group that we have, our highest tier membership, and it's open now to new members, but it's not very often open to new members because we try to keep it so small. So could you tell me a little bit about that?

James (53:00)
~ Yeah, sure. mean, ~ at Shift Sovereign, we have a number of products and services. have a Plan B ~ product that focuses on international diversification, second passports, second residencies, real estate abroad, asset protection, foreign bank accounts, the sorts of things to diversify a lot of things in your life internationally so that you don't have all of your eggs in one basket.

We also have a lot of investment research and we focus on, we've talked about this a lot, real assets that, mean, our investment research on that has just done absurdly well, absurdly well. We're very, very proud of that. And so we have a lot of content, a lot of premium content. So we have a group within Shift Sovereign, it's called Total Access. And so first things first, our Total Access members get everything that we do for free. It's just complimentary as part of their membership. All of our investment research, all of our Plan B research, plus

a whole lot of additional ~ content, additional ~ research, additional options, things that are just above and beyond everything else that we do that is tailored specifically for our members. We've also, I mean, we've gotten on the phone with people, we've really helped out to open a lot of doors and do a lot of things for them. People have questions. We have no problems getting on the phone with folks, bending over backwards to really personalize things for them. We also do

I would say, know, events, investment conferences, ~ Plan B type conferences, we have people from all over the world. We've done these all over the world. ~ From, you know, good old Dallas, Texas to ~ Singapore and Europe and, you know, all over Latin America. We've done we've done them all over the world. And we bring in I mean, really just a who's who, and some of the most prominent ~ minds, thinkers, doers and achievers in the world, you know, who come to these things and really

quite intimate gatherings. These are not like massive conferences. We have thousands of people and get lost in the sea of faces. We try and keep these actually small and intimate and you know, so people really not only get to know one another, but are able to spend a lot of time with these just, you know, kind of luminaries of industry and achievement. And these are people that I've had relationships with for years that come to our events. And it's been, you know, those are, those are really great. We do these smaller like boots on the ground trips where we go to different places. We've got one coming up.

just in a couple of weeks where we're going to Tanzania. And it's, you know, these are always, we try and mix a little bit of kind of business and pleasure where we'll not only, you know, go in the Serengeti and, and, you know, see, see the animals in the wild and do the safari and all of that, and, and, you know, hit the beaches of Zanzibar, but also meet with very prominent local African business leaders in the capital city of Dar es Salaam. And, and, know, so kind of mix that. So very, very interesting kinds of things that you would just

you would just never see or you can mix, you know, safari, exotic beach destination, and, you know, ~ business and you know, one of one of Africa's more, you unique and thriving economies. ~ We've got another one coming up that we'll do actually a little bit later in Mexico, another one early next year in Argentina, where we're going to go and explore Argentina, just, you know, Bariloche and you know, this the incredible beauty of Bariloche in southern Argentina.

Buenos Aires and the capital city and all the sort of culture and the vibrancy and going and you seeing the theater and the opera and the tango and all these things as well as looking at real estate opportunities and business opportunities as part of their you know Argentina has this ~ economic citizen excuse me economic citizenship program we can actually make an investment in the economy and get citizenship in Argentina we think this is actually going to be one of the world's more valuable passports and kind of an interesting opportunity to make a qualified interesting investment

in a growing economy now that's really just done a 180. And also just, you know, have a great trip with, you know, with other people that are in the group. And that's really kind of primary, primarily the thing about it to me is just the relationships that you that you build. This is not like a pessimistic doom and gloom. The end of the world is not. I'm not that way. think hopefully what people get out of these podcasts is that, yeah, there's a lot of problems, but there's also a lot of solutions, a lot of opportunity. And that's kind of been my my mantra from day one.

And our total access group is just people that see the world also in that way. They understand there's challenges, but they also understand like, hey, it's not the end of the world, but it sure as hell a lot easier going through those challenges. If you can grip hands with like-minded people, people who share your value system, people that understand the world in a similar way, we do these events in large part to really kind of facilitate those relationships. And I've talked about this before, you know, how I see my kids show up to the playground and they just start playing with other kids because they're kind of this more or less the same

size and shape. it gets a lot harder to do that as an adult and especially to kind of filter out a lot of the craziness and to filter out, you know, things that, you know, just really are diametrically opposed to the way you want to live your life and your value system and to sort of have a community like that. You know, it's just, it's a lot easier going through life with just strong relationships with very trusted

reliable people. And that's the primary thing with Tolex is we bend over backwards for our members. And that's the reason why we also keep it, ~ you we keep it closed and we keep you can't just sign up whenever I mean, we have these sort of enrollment drives from time to time. But they're pretty rare. And we're doing one now and you know, people that are listening to what I'm saying and you know, I mean, if you're somebody who actually is a person of values and somebody who

understands the world, but you know, can do so from position of strength and looks at things rationally and actually wants to engage with with other, you know, reliable, trusted, like minded people. We'd love to have you. It's a fantastic group. It's one of the things that I'm most proud of things that I enjoy absolutely the most, not only kind of in my professional life, but just personally, I've just met so many wonderful people become really, really great friends very close with so many people in our group. So yeah, I hope there's some folks that take the opportunity to to enjoy this with us and

Thanks for bringing it up so I could mention it. It's open now. We wanna go ahead and get the word out, but it definitely won't remain open for too much longer. So thanks for bringing it up, Joe. Okay.

Joe (59:13)
Yep. Thanks, James.